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Mexico: Labor-Government Relations

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An Intelligence Assessment

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An Intelligence Assessment

This paper was prepared by [redacted]
Office of African and Latin American Analysis. It
was coordinated with the Directorate of
Operations. Comments and queries are welcome and
may be directed to the Chief, Middle America-
Caribbean Division, ALA, [redacted]

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**Mexico:
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Key Judgments

*Information available
as of 7 November 1983
was used in this report.*

Mexican labor unions—almost wholly co-opted by the ruling party—are showing few signs of militancy despite soaring prices, declining real wages, rising unemployment, and shortages of food and consumer goods. By and large, organized workers have been hurt but have not borne the brunt of austerity, and their leaders have been able to claim some success in preserving jobs and curbing the effects of inflation on labor.

The continued loyalty of organized labor—constituting only an estimated 20 to 25 percent of the nation's work force but politically influential beyond its numbers—is essential for the maintenance of IMF-mandated austerity and for short-term political stability. Union officials, nevertheless, foresee the hardships caused by austerity creating growing demands for redress that they can ill afford to ignore. Moreover, President de la Madrid is concerned that disquiet over the grim economic times could reinvigorate nonestablishment unions and enable them to effectively challenge government policies. So far, however, sharp criticism of government policy by Communist-dominated unions has no more than embarrassed the ruling party.

We see numerous dangers to the existing labor-government relationship, but no single factor is likely to cause a crisis. Political missteps by de la Madrid, Mexico's inability to pull out of its economic tailspin, and potential disarray in the labor movement's hierarchy would have the highest potential for disruption.

Although some strains will almost inevitably develop as Mexico works its way through its financial predicament, we believe that well-established lines of communication, a perceived need for cooperation, and the demonstrated flexibility of both labor and government leaders will forestall serious confrontation. At this juncture, breakup of the system that has served organized workers so well seems unlikely.

Friction between labor and government seems most likely to develop as economic activity picks up when unions will look for healthy economic bonuses in exchange for previous sacrifices. As long as unions focus on bread and butter issues, even a sharp upswing in the number of strikes would not be threatening to the regime.

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Prolonged economic stagnation, while causing increased labor militancy, would be, on balance, less a problem than fissures in the Mexican political system. If oil prices drop sharply or a global financial crisis occurs, however, the resulting plant shutdowns and massive layoffs would touch off union calls for debt repudiation and controls to protect Mexican businesses from competition.

A leadership vacuum within the labor movement poses the greatest unknown. Continued strong performance by the President would alleviate most immediate problems. Jockeying for power among leaders of the major progovernment union or the inability of successors to labor chieftain Fidel Velazquez to restrain labor demands could touch off a restructuring of the movement and its relations with the government.

US and multinational firms are likely to face increased problems from unions when the economy begins to recover. Labor probably discounts the harmful effects of currency depreciation and negative economic growth on foreign-owned companies and sees them as better prepared than domestic firms to make concessions. At the same time, US firms could face pressure from the government to restrain wage settlements and thus avoid interunion tensions.

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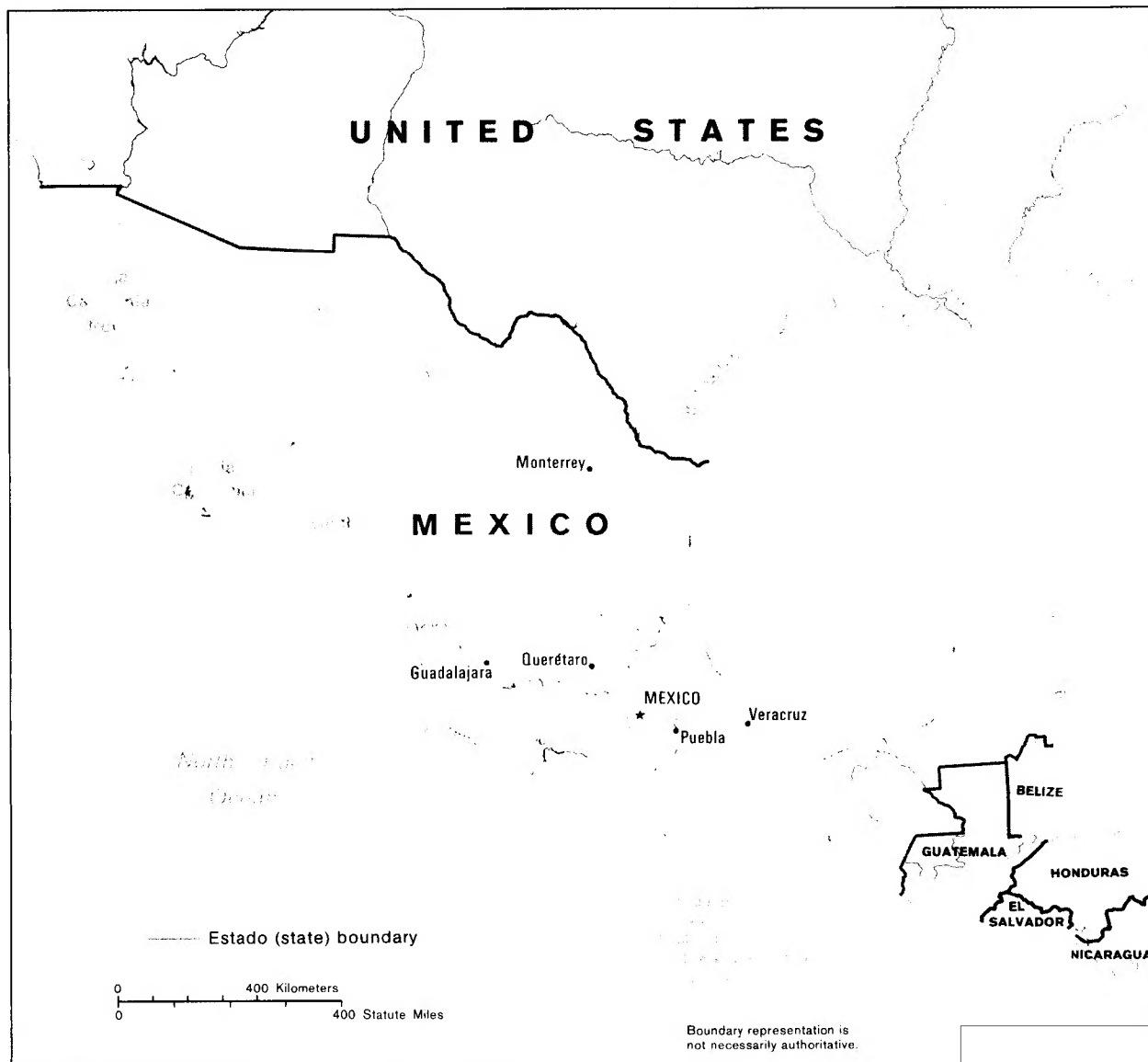
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Mexico: Labor-Government Relations

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Introduction

The continued loyalty of organized labor—largest and best organized sector of the ruling Institutional Revolutionary Party (PRI)—is essential for the success of President de la Madrid's austerity program and is the key for Mexico's short-term political stability. So far, despite soaring prices and declining real wages, workers show few signs of discontent. This has allowed the President some flexibility in implementing the painful measures necessary to rekindle economic growth. Union leaders, nevertheless, are concerned over triple-digit inflation, rising unemployment, and shortages of food and consumer goods. They foresee growing demands for redress that they could ill afford to ignore.

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mechanisms, union leaders channel government instructions to members and keep party strategists abreast of grassroots concerns and problems. They also help mount progovernment demonstrations and supply the high turnouts and the votes necessary to justify PRI claims that it represents the views and interests of the majority of Mexicans. Strikes are rare and work stoppages seldom correlate with economic factors such as the rate of inflation. Because the federal government regulates contract negotiations and oversees a broad range of social welfare programs, unions are more interested in ensuring that organized labor's guarantees and privileges are protected than in being the advocates of labor rights.

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Failure by de la Madrid to keep labor's support could presage severe strains on the nation's political system, while measures necessary to hold labor's allegiance could lead to the unraveling of the recovery program. Neither of these extremes appears imminent or inevitable, but maintaining good labor-government relations will require de la Madrid's close and constant attention.

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Union functionaries, anxious to retain their jobs and improve their chances for advancement, generally cooperate with the government and restrain rank-and-file demands detrimental to ruling party-government interests. Recalcitrant workers are expelled from their locals and, because of strict union shop requirements, lose their jobs. Dissident victories in shop elections are voided. Union thugs exert physical "persuasion" when necessary.

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In assessing the course of labor-government relations, this paper reviews the role and influence of organized labor in the Mexican political system, examines labor-government relations during the economic downturn, identifies crucial variables that could splinter the relationship, and discusses the outlook for that relationship over both the near and long term. The appendixes provide an overview of progovernment and nonestablishment unions in Mexico.

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The high wages and impressive fringe benefits unionized workers receive play an important role in guaranteeing labor quiescence. Members constitute the elite of the labor force and their standard of living is above that of the majority of Mexicans. They reap the lion's share of the benefits from extensive government social programs. Union owned and operated buslines, stores, hospitals, schools, and recreational facilities also contribute to their privileged status.

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Labor in Perspective

Progovernment Unions. Organized labor in Mexico, representing close to one-fourth of the nation's labor force and over two-thirds of all full-time workers, is primarily an apparatus of political leverage. Integrated into the post-Revolutionary corporatist structure by an elaborate network of rewards and control

Although labor is subordinate to the state, the behind-the-scenes influence of union leaders can affect government policy. According to the US Embassy, Fidel Velazquez—longtime head of the nation's largest

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Characteristics of Union Labor in Mexico

The large majority of Mexican laborers, reflecting the continued importance of small-scale agriculture and high levels of unemployment and underemployment, do not belong to unions. Academic sources estimate that just 20 to 25 percent of Mexico's total work force of some 21 million is unionized. Among full-time workers, however, 60 to 70 percent belong to unions, and those in essential industries—petroleum, electrical, transportation, steel, and mining—are well organized. In addition, over 90 percent of plants employing more than 25 workers are unionized, according to US officials. Paralleling traditional male dominance in the workplace, women are a distinct minority among unionists. [redacted]

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Sectoral differences are pronounced. Approximately 90 percent of existing unions—covering about two-thirds of organized workers—are in the manufacturing sector. Most are small and centered in the country's industrial heartland. The Federal District and the northern state of Nuevo Leon contain the most union workers, both as a percentage of the economically active population and in absolute numbers. According to academic estimates, because of the

rapid expansion of the federal bureaucracy during the last two administrations, government employee unions—with less than 1 percent of the number of unions—account for nearly 40 percent of organized workers. Somewhat more dispersed geographically than their industrial counterparts, their membership is predominantly in the capital. Effective agricultural unions or associations are virtually nonexistent although those in the state of Sinaloa in northwest Mexico appear to be more than paper organizations. [redacted]

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Since World War II union members have become increasingly differentiated by skill, income, and status. Service workers and laborers in the building trade generally fare worse than industrial workers. Skilled workers or craftsmen are an aristocracy among unionists. They frequently serve as middlemen in management-labor dealings, and many become supervisors. Most have middle-class aspirations. Workers in the powerful Petroleum Workers' Union rank as the best paid in the country. Employees of foreign-owned firms—particularly in the automobile industry—also tend to receive high salaries. [redacted]

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union organization, the Confederation of Mexican Workers (CTM)—consults frequently with the President, [redacted]

[redacted] Labor's numerous elective and appointive posts as well as representation on influential administrative bodies such as the National Minimum Wage Commission also provide organized labor some say in decisionmaking.¹ [redacted]

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Nonestablishment Unions. The governing elite tolerates the existence of several nonestablishment union organizations, but, because of the substantial rewards progovernment union members receive and the PRI's talent for emasculating potential troublemakers, only a small minority of unionized workers—perhaps less

than 5 percent—are represented by organizations not affiliated with the ruling party. Opposition political parties have made little headway in building a following among workers. Although Marxists have managed to attract enough support to establish footholds in many PRI-affiliated unions, we believe the PRI's success in co-opting leftist leaders has undermined even this limited foundation. At the same time, the Communists' emphasis on organizing students has made them appear unsympathetic to the problems of workers. Underscoring its conservative, middle-class outlook, the center-right National Action Party places little emphasis on proselytizing workers and claims no union affiliates.² [redacted]

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¹ For a detailed discussion of progovernment labor unions, see appendix A. [redacted]

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² For a discussion of nonestablishment unions in Mexico, see appendix B. [redacted]

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Table 1
Leading Progovernment Union Organizations ^a

Name	Leadership	Membership Estimates ^b	Geographic Area of Strength
Confederation of Mexican Workers (CTM)	Fidel Velazquez	At least 1.5-2 million workers; includes aviation, cement, construction, electrical, farm, hotel, paper, printing, and sugar workers	Mexico City, Mexico State, Sonora, Puebla, Guadalajara, Queretaro
Federation of Government Workers Trade Unions (FSTSE)	Manuel German Parra Prado	1.5-2 million workers; includes most bureaucrats and secondary school teachers	Mexico City, state capitals
Regional Confederation of Mexican Workers (CROM)	Antonio J. Hernandez	150,000 members; includes textile, shoe, garment, and maritime and port workers	Veracruz, Mexico City
Revolutionary Confederation of Workers and Peasants (CROC)	Alberto Juarez Blancas	500,000 members; includes food and beverage, textile, transportation, and hospital workers	Mexico City
General Confederation of Workers (CGT)	Lorenzo Valdepenas Machuca	30,000 members	Federal District

^a All are members of the PRI-sponsored Congress of Labor.

^b Precise figures for union membership are lacking, and wide differences of opinion exist among observers of Mexican labor. Some, for example, estimate CTM membership at 4-5 million.

Note: A number of large national unions affiliated with the ruling party remain outside the organizations listed above.

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Unions During the Economic Downturn

Organized labor's willingness to accept harsh austerity measures during 1983 is a solid indicator that the intricate give and take that characterizes labor-government relations is working even under the strains imposed by the severe economic downturn. Recognizing the seriousness of the country's economic plight and the potential for instability, Fidel Velazquez has put his substantial political weight on the side of moderation. His declarations of support for the government, calls for broader labor-government cooperation, and rejection of a Communist-proposed labor alliance helped smooth the troubled transition from the Lopez Portillo to the de la Madrid administration by reducing tensions and allowing the new President the time and the flexibility to launch a recovery program, build his image as an effective leader, and persuade international financiers of his commitment to austerity.

Velazquez has been exceptionally responsive to private-sector problems. (S NF NC OC)

IMF strictures, while painful for labor, have not drawn much fire, and criticism of austerity has been tempered with effusive declarations of loyalty. No major strikes by progovernment unions have occurred, even though progovernment union leaders on occasion have threatened widespread work stoppages. We believe such statements are aimed at deflecting rank-and-file complaints that their interests have been forgotten and at offsetting criticism from nonestablishment unions. Velazquez's attacks against opposition parties—especially since the National Action Party's strong showing in local elections in northern Mexico—point to continuing support for the ruling party. Nevertheless, the government is concerned about the potential for labor unrest and remains watchful of incidents that could spark problems.

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Table 2
Leading Nonestablishment Trade Union Organizations

Name	Membership Estimates ^a	Geographic Area of Strength	Ideology
National Federation of Independent Unions (FNSI)	70,000, works closely with managements	Monterrey	Center right
Independent Workers Union (UOI)	20,000, in decline; strongest in automobile industry and airlines	Mexico City	Nonideological
University Workers Union (SUNTU)	60,000	Federal District, state capitals	Dominated by Unified Socialist Party
Single National Union of Nuclear Workers (SUTIN) ^b	3,500	Federal District	Close ties with Unified Socialist Party
Authentic Labor Front (FAT)	Unknown, controls a handful of locals	Puebla, Queretaro	Christian-Democrat, militant, associated with opposition leftist parties

^a Precise figures for union membership are lacking, and wide differences of opinion exist among observers of Mexican labor. Some, for example, estimate SUNTU membership at 30,000.

^b SUTIN is, however, a member of the progovernment Congress of Labor.

[REDACTED]

Concentration on Bread and Butter Issues. Labor moderation, however, is not unconditional, and union strategists have doggedly defended the economic interests of their rank and file. Job preservation remains the top priority; unionists—particularly during the early stages of the crisis—repeatedly told US Embassy officials they would forgo major wage increases if faced with the alternative of plant closings and unemployment. Businessmen, in part hemmed in by regulations requiring large severance payments and other benefits for full-time workers who are laid off, have responded with such moves as cutting hours and splitting jobs to keep employment up. Simultaneously, the federal work force has been expanded. Even though unemployment is rising nationally and now, according to some private-sector Mexican economists, exceeds 20 percent, among unionized workers it is probably less than 10 percent. On balance, union members have suffered less from the ravages of austerity than most other workers. [REDACTED]

Slowing inflation has also been a major goal. Labor leaders have linked acceptance of small wage hikes to government and business efforts to prevent rapid price

increases. Vociferous calls for an emergency wage hike this spring after large cuts in fuel and milk subsidies were in large part aimed at alerting the government to union sensitivity about high inflation. Rising demands for rent controls and curbs on business profits, as well as the formation of watchdog committees to prevent price gouging by merchants, reflect labor's intent to do more than jawbone. Labor leaders may feel some satisfaction in the lower monthly inflation rates reported for September and October and hope that upward pressure on prices will ease further in coming months. [REDACTED]

The government's efforts to ensure access of workers—organized or not—to basic necessities have given union leaders the opportunity to concentrate on the job preservation issue. Dietary mainstays such as beans, rice, and tortillas are still affordable because of continuing federal subsidies. Government grain purchases for state-owned stores are maintaining supplies in urban areas. In addition, the administration has

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President de la Madrid, left, greeting labor leader Fidel Velazquez [redacted]

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reduced taxes on low-cost housing and medicines, kept public transportation fares low, extended medical benefits to some unemployed workers, opened food distribution centers in Mexico City, and started a jobs program. [redacted]

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Trouble With Independents. Nonestablishment unions—particularly those with links to opposition leftists—have been a problem for the President, and he is concerned that the hardships caused by austerity could give them the issues to attract a large following. So far, however, the independents have not displayed much strength, even though their sharp criticism of belt-tightening measures and ability to carry out several strikes have been embarrassing to the ruling party. The President's efforts to undercut them—described by the Embassy as the strongest against nonestablishment unions in years—have included threatening to void the contract of the striking Communist union at the National University and shutting the doors of the parastatal company another leftist union was picketing. [redacted]

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Crucial Variables

The severity, depth, and duration of the country's economic malaise almost inevitably will come to strain labor-government bonds, and we see a likelihood that de la Madrid will soon feel significant pressure to backtrack on key facets of his economic reforms. Even though early compromises held up in 1983 and most union leaders accepted the need for retrenching, labor discipline will be increasingly difficult to maintain as the economic hardships multiply. Most likely, accommodations between labor and government will prevent the worst cases—decisive alienation of labor or abandonment of the economic recovery program. Particular developments, nonetheless, could tilt the Mexican situation toward one of those extremes. For example, indefinite prolongation of Mexico's economic doldrums, political missteps by de la Madrid, or the death of aged Fidel Velazquez and subsequent disarray in the labor leadership have high potential for disruption. [redacted]

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The President. As the paramount player in Mexico's authoritarian political structure, the President, by his skill in juggling the conflicting demands of powerful interest groups, will shape the course of labor-government relations. A series of blunders by de la Madrid or the public's perception of him as indecisive would spell a loss of confidence even if the economy were in good shape. His death, because there is no vice president and a successor must be selected by Congress, would jolt the political system severely. [redacted]

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A technocrat by training and regarded as a political neophyte at the time of his nomination, de la Madrid has so far shown considerable knowledge and skill in enforcing austerity. His tactics—generally regarded as tough but fair—have diffused issues around which antigovernment forces could coalesce. Efforts to rebuild public enthusiasm for the ruling party, badly strained by the greed and corruption of the Lopez Portillo administration, include opening up the candidate selection process, placing younger members of the party in important positions, and restructuring state and local affiliates. The President has also

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Table 3
Strikes and Work Stoppages, 1983

Unions Involved	Issues	Government Response/Settlement
7 February–24 March: 8,000 to 10,000 workers strike government-owned automobile plants near Mexico City. Union involved has some ties to UOI.	Workers demanding 60-percent increase in wages and protesting planned layoff of 2,500 workers. Nonviolent.	20-percent wage hike plus monthly food allowance. Layoffs not revoked.
29 April–May: 40,000 to 50,000 members of Communist-dominated university unions stage 3-day protest. Since held over a weekend, only 1 working day lost.	Protesting austerity. Nonviolent.	
25 May: Communist-dominated faction of teachers' union stages 1-day work stoppage. Upward of 150,000 teachers participate.	To publicize demands for 100-percent emergency wage increase. Nonviolent.	
1–25 June: Communist-affiliated Nuclear Workers' Union pickets parastatal company. Some 3,500 workers affected.	Demanding 50-percent wage increase. Nonviolent.	Administration takes hardline stand. Closes company's doors. Status of union still in flux.
21 June: large progovernment teachers' union—under pressure from Communist faction—stages partial 1-day work stoppage. Some 200,000 workers involved.	Protesting austerity. Nonviolent.	
1–28 June: Communist-dominated unions strike the National University and 10 other state universities. Approximately 45,000 workers participate.	Demanding 40- to 100- percent wage increase. Nonviolent.	Administration declares the strike nonexistent. Workers—to prevent termination of contract and loss of jobs—return to work. No pay raise.
21 July: staff (and students) of large teachers' college in Mexico City. Some 3,000 participants.	Protesting proposed closure of the school. Blocked traffic in downtown Mexico City.	Government used police to disperse.
18 October: leftist parties and front groups call for a 1-day, nationwide work stoppage.	To protest government austerity program. Nonviolent.	Administration puts heavy pressure on leftist parties. Security elements beefed up. Participation is minimal because progovernment unions refuse to join.

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proved adept at taking advantage of the ruling party's ability to move in various directions at once to reduce strains. For example, the government has reassured nationalists who are disturbed by Mexico's adherence to an IMF-imposed economic program by participating in the Contadora group. [redacted]

The President's handling of labor has been particularly impressive, even though [redacted]

[redacted] his technocrat-dominated administration has not cultivated top labor leaders. He has provided progovernment unionists with enough "victories" to keep their followers in line, but has avoided

giving hard-hit businessmen the impression that he is totally in the union camp. Indeed, his success in keeping wages down has earned applause from businessmen and international bankers. In choosing the new head of the large government employees' federation, de la Madrid selected a PRI stalwart with substantial political experience who can be counted on to work closely with the administration. Nonestablishment unions, though troublesome and embarrassing, generally have been forced to toe the line through indirect pressures and threats. [redacted]

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De la Madrid's Wage Policy

One of de la Madrid's main goals when he took office was to cut real wages to lower consumption. As a measure of his success, real wages have fallen nearly 20 percent during the first three quarters of 1983. Last December's minimum wage negotiations—a traditional guideline for union settlements throughout industry—culminated in a moderate, two-stage wage boost for workers: 25 percent in January, with a promised 12 percent in July. Although there was some pressure to boost this summer's hike and move it forward several months, the President remained adamant and allowed only a 15.6-percent rise in June. [redacted]

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Government-affiliated unions are disappointed over the continuing fall in real wages, but their near-unanimous compliance has allowed the President to go a long way toward meeting IMF targets. Even the most boisterous progovernment unions—the electricians and telephone workers—have settled quietly and for less than their original demands for 50-percent hikes. Moreover, the labor-business-government solidarity pact signed in August implies a wage freeze for the remainder of the year. [redacted]

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To forestall worker unrest, both the government and the private sector have offered other rewards. Some companies have boosted fringe benefits, while other employers have increased contributions to worker cafeterias as well as paying bonuses—tax free under Mexican law—for good attendance. The administration postponed plans to raise public transportation

fares, and, as part of the movement toward a single national standard, regional variations in minimum wages were again narrowed. In addition, minimum wages can now be raised more frequently than the traditional annual increase. This move gives labor an opportunity to push for its longstanding goal of indexing wages to inflation. Mexico City—after a brief hiatus—has also started to pay traditional bonuses to bureaucrats and government employees. [redacted]

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To uphold the status of Fidel Velazquez and other progovernment labor leaders as well as ensure their continued support for his hardline policy, the President has not allowed nonestablishment unions much leeway in wage negotiations. According to press and US Embassy reports, a monthlong strike in the summer of 1983 by nonacademic employees of the National University—represented by Mexico's largest Communist-led labor organization—ended with no pay increase for the strikers. The administration was inflexible during bargaining sessions and was prepared to rule that the strike was "nonexistent" and to terminate the workers' contracts. [redacted]

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We believe that the President will continue to seek further cuts in real wages in 1984. We believe labor will accept wage settlements about 10 percent below the rate of inflation. As compensation, however, labor will demand significant increases in nonwage fringe benefits. [redacted]

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Maintaining labor's support has been the major political objective so far during de la Madrid's administration, and he has favored its interests just enough to keep its allegiance. He is keenly aware, however, that the inner balance of the ruling party would be jeopardized by excessive concessions to a single sector. Although many of labor's gains have—and will continue to—come at the expense of the major sector of the PRI dominated by the middle class, labor's sway has not yet increased relative to the other two components of the party. [redacted]

[redacted] according to US Embassy reports, some unionists were disappointed with the scarcity of prolabor appointees in de la Madrid's administration. De la Madrid's decision to increase union representation in Congress in 1982, while demonstrating labor's importance, was essentially symbolic because the Congress plays a minor role in the legislative process. [redacted]

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Just how far de la Madrid can go in keeping labor on board without meeting unacceptable opposition from within the party is unclear. [REDACTED]

The Economy. A continuing decline in economic activity over an extended period, especially if combined with continuing high inflation, could set the stage for a weakening of presidential control. To convince workers to make short-term sacrifices, the President and progovernment labor leaders have heavily emphasized the prospects for future improvement. Emphasis on job preservation has so far served the best interests not only of workers but of business and the middle class, and we see few indications of rank-and-file dissidence. Velazquez's claims that unemployment remains within acceptable bounds are probably not exaggerated, and his comments to US Embassy officials that another wage increase will not be sought this year points to a willingness to give the President additional time. Moreover, the accessibility of the United States to unemployed workers or new entrants into the job market has also acted as an outlet on labor unrest. [REDACTED]

Nevertheless, the outlook for Mexico's economy remains grim. Even under the best circumstances, we see little chance for the beginning of recovery until mid-1984. Although the decline may soon begin to bottom out, during de la Madrid's first eight months in office real GDP fell at an annual rate of 6 percent, inflation ran in the triple digits, and imports of capital and consumer goods plummeted. Next year, inflation is likely to fall to the 30- to 40-percent range, but, at best, economic activity will stagnate. [REDACTED]

Factors beyond de la Madrid's control could damage the economy and prolong the need for belt tightening. A dip in oil prices or higher interest rates would throw domestic austerity efforts off track. Failure by the



Fidel Velazquez [REDACTED]

private sector or multinational firms to begin reinvesting would also dampen recovery. Default by a large debtor nation such as Brazil or Poland could limit access to additional international funds. [REDACTED]

While it is difficult to determine the point at which worker patience would be breached, indefinite sacrifice cannot be in the cards. Job preservation will not suffice during a period of stagflation, and we believe pressure for more militant stands will grow. Indeed, the union rank and file strongly oppose food price increases and will press their leaders to lobby for changes in relevant government policies. While progovernment labor leaders would probably comply in order to undercut appeals from opposition parties and nonestablishment unions, the government would continue to make only those concessions necessary to keep labor on board. A wave of victories by dissidents in local shop elections would send a clear message that policy changes were in order. Strikes by unions affiliated with the ruling party would be a sign that the difficulties plaguing the system were too complex to handle in traditional, behind-the-scenes negotiations, and the risk of a fracture in the political system would rise. [REDACTED]

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Key Role of Fidel Velazquez

As the dominant figure in the country's premier union organization for over 40 years, 83-year-old Fidel Velazquez plays a crucial role on the labor-political scene. He acts both for the government in its relations with the labor movement and for the workers in their dealings with the government. He is one of a handful who have immediate access to the President, and his imprimatur is sought by government officials on domestic policy decisions. Many academics—citing the adage that presidents come and go but Velazquez remains—regard him as, perhaps apocryphally, the most powerful individual in Mexico. []

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There is little doubt that Velazquez's fealty to the survival of the ruling party-government complex is absolute. He rejects both capitalism and Communism and views himself and his cohorts as coresponsible with the government for directing the destiny of Mexico. While acquiring a reasonable share of the benefits of Mexico's rapid economic development between 1940 and 1980 for his rank and file, he has proved a paragon of moderation, preferring conciliation to threats. During the economic crisis he has strongly supported the conservative economic policies imposed by the President. In fact, the Communists accuse him of selling his soul to the government and private enterprise. []

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Velazquez has been in command of the CTM since 1941, and his unchallenged authority within that organization allows him to run it like a microcosm of the PRI. No local or regional CTM official would risk a major move—such as a strike or antigovernment protest—without consulting him. He rewards loyalty, but those that step out of line are quickly chastised and required to do penance. Government leaders, in return for the vast patronage they place at

his disposal, depend on him to head off dissent within labor and to persuade the rank and file to acquiesce to policies that would cause riots in other countries. Close personal contact with leaders of other affiliated unions as well as influential members of the governing elite also enable him to exert influence over the labor movement as a whole. He has not—according to US Embassy sources—enriched himself during his long tenure, a fact that adds to his public stature. []

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While labor's symbiotic relationship with the ruling party is unlikely to change with a new man at the helm of the CTM, the process of finding a successor to Velazquez will test the political system's capacity to adjust to shocks from within. The new leader will be hard pressed to develop the loyal following as well as the sense of what can be accomplished that Velazquez has acquired in over 40 years of practice. As a consequence, the tone and temper of labor-government relations could acquire some harsh overtones as the new man adjusts. []

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Although the CTM has a fair degree of autonomy, we believe the President will "select" Velazquez's successor from among a number of CTM candidates, who will then be "elected" by the CTM's membership. Because most prominent CTM leaders below Velazquez are in their eighties and apparently lack the talent to do the job well, the President is more likely to dip into the younger echelon of CTM officers to find a replacement for Velazquez. Because labor's support is essential for the ruling party's continued political hegemony, the principal criterion for leadership will be loyalty and acceptability to the governing elite rather than accountability to mass constituencies. []

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Labor Discipline. Disorganization within labor's hierarchy would magnify existing low-level tensions over how to respond to the economic crisis. Up to now the masterful manipulation of Fidel Velazquez—83 years old and in relatively good health for his age—has held workers together and labor continues to speak with one voice. Because he has no heir apparent, however, and because those who might take his place lack his influence and contacts, Velazquez's death or incapacitation will cause a vacuum at the top which could complicate continued union-government cooperation.

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Established institutional controls should provide de la Madrid with enough leeway to replace Velazquez without precipitating a crisis. Nevertheless, jockeying for influence among senior union leaders could prolong uncertainty. In addition, Velazquez's successor, particularly if the economy does not improve, is likely to be under considerable pressure from within the labor movement to demonstrate the strength of his commitment to worker interests.

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De la Madrid's hardest decision in the event of Velazquez's death will be whether to break up the CTM. Proponents of division claim small units are easier to manipulate and would prevent another powerful, Velazquez-like figure from emerging. The fact that Velazquez's ability to control the unions has been a key element in the success of austerity, however, argues for the utility of a powerful but loyal personage.

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De la Madrid appears inclined to keep the CTM intact.

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US Embassy officers agree that continued CTM integrity seems to be de la Madrid's intent and describe rumors about dividing the organization as the reaction of technocrats who have felt Velazquez's wrath. Indeed, because the political selection process has emphasized technocratic skills in recent years, union chieftains, with their long experience in manipulating the populace, will find themselves in greater demand as leaders try to maintain political balance.

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Even if he lives out the remainder of de la Madrid's six-year term, Velazquez's success in maintaining labor discipline is not guaranteed. Some signs of distancing from Velazquez are already noticeable. We believe more conservative members of the Labor Congress have sought to gain favor with de la Madrid, in part because they disapprove of Velazquez's handling of wage negotiations. The CTM's increased congressional representation—largely at the expense of other labor confederations—has also caused hard feelings. Even the de la Madrid administration has made gestures toward other leaders. Indeed, praise for several small labor organizations by the Labor Minister coupled with a decision by insurance industry workers to terminate their affiliation with the CTM may indicate some dimming of Velazquez's star. Moreover, the powerful Petroleum Workers' Union is wary of administration attacks on corruption and could break ranks.

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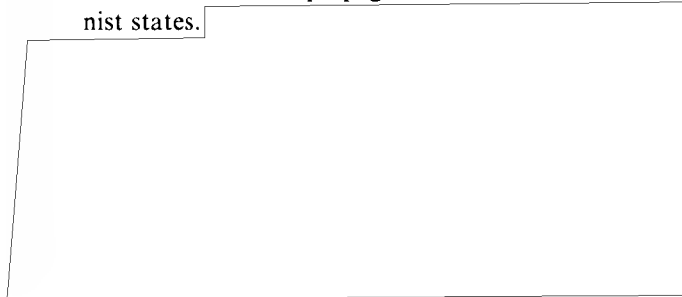
Potential for Foreign Meddling

Mexico's unsettled economic situation has raised the specter of meddling by foreign powers. Leaders of mainline labor unions, however, are demonstrably part of the establishment and tend to be conservative and strongly anti-Communist. While nonestablishment unions and unorganized laborers might, under later, changing circumstances, present attractive targets for Cuban or Soviet interference, we believe Moscow and Havana are now more interested in maintaining mutual good will. Mexico is widely respected in international circles for its independent

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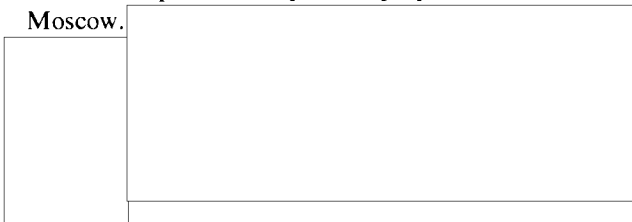
policies, which are usually sympathetic to the Third World and often of propaganda value to the Communist states.



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While friendly relations with Cuba and the USSR are an important part of Mexico's claim to independence from the United States and add to the regime's standing among leftists at home, the government clearly remains wary of Soviet and Cuban intentions. Mexico City permits Havana and Moscow—and non-Communist diplomats—to maintain a wide range of contacts with opposition leftist parties, but does not countenance any outside interference in internal politics. We believe it would react with vigor—as it has done in the past—to any misstep by Havana or Moscow.



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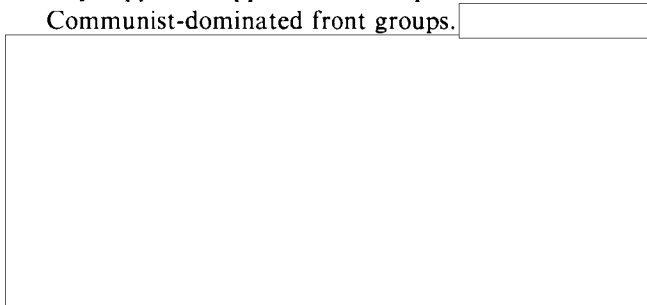
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The Soviet Union. Moscow's links with progovernment unions, in part because labor leaders such as Fidel Velazquez are staunch anti-Communists, are limited. Although Soviet delegations have attended recent labor conferences in Mexico, the Soviet-sponsored Permanent Committee for Labor Unity in Latin America (CPUSTAL)—headquartered in Mexico since 1978—has not developed contacts within the mainstream of Mexican labor. It has abided by what US Embassy sources claim was an unwritten promise extracted by Lopez Portillo in 1978 not to interfere in the domestic labor or political scene, although the Soviets applauded the organization of a coalition of the Mexican Communist Party with four smaller leftist parties in 1981. The coalition is plagued by disunity and chary of outside influence, and, as a result, we see it as a poor spear carrier for any attempt to influence the government.



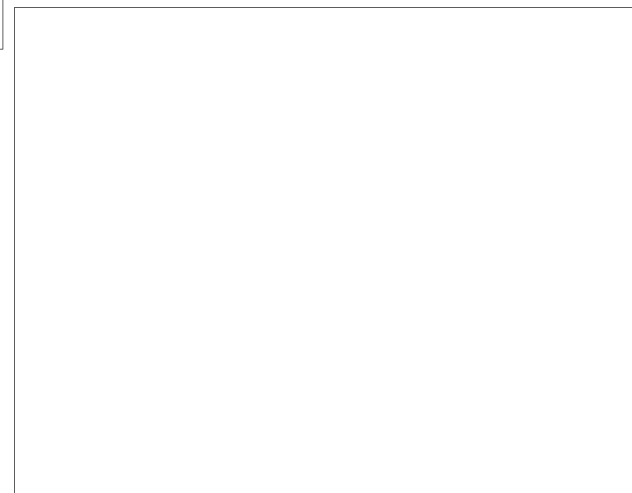
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Cuba. At present Havana's large diplomatic and commercial contingent in Mexico City appears to concentrate on giving organizational, financial, and nonmilitary assistance to the various revolutionary groups that it supports in other Latin American countries. Cuba, however, has also provided organizational advice and presumably other forms of nonmilitary support to opposition leftist parties and Communist-dominated front groups.



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The Outlook for Labor-Government Relations

1984. Hard tests of de la Madrid's political acumen lie ahead. Imposing another year of austerity will require politically risky cuts in public spending and employment. Continuing restraint will hit business hard, causing new bankruptcies and increased unemployment. We believe the President will continue to emphasize constraints on consumption, and, as a result, real wages will once again fall, although the loss will be less dramatic than in 1983. [REDACTED]



Labor Minister Arsenio Farrell
Cubillas [REDACTED]

Camera Press ©

During the year, because of economic pressures, we expect disruptive incidents to occur and sharp rhetoric to issue from both sides. In addition, Labor Minister Arsenio Farrell—according to press and Embassy reports—has offended Velazquez, and that could mean problems in the wage negotiations scheduled for 1984. Some strikes or sporadic violence could materialize. Nevertheless, well-established lines of communication between both government and labor leaders, a need perceived by both sides to cooperate, and their demonstrated flexibility will probably forestall serious confrontation. In the face of mounting losses by private businesses, leaders of PRI-affiliated unions are likely to continue to stress job preservation and cooperation with business and government. On occasion, the President may need to employ selective use of force to maintain order, but his early establishment of authority and his success in reducing the atmosphere of anxiety suggest he will remain in control of events. [REDACTED]

hierarchical structure is seen as the avenue for advancement, increases in labor agitation will remain within established norms. Indeed, as long as unions focus on bread and butter issues, even a sharp upswing in the number of strikes would not be regime threatening and would probably receive the President's nod. Even at such a juncture, breakup of the system that has served labor so well would be unlikely, and labor's political influence would eventually return to a more traditional level. [REDACTED]

Because of their weakness and the effectiveness of the President's policies, we anticipate that nonestablishment unions will not make many gains next year. Mexico City will remain sensitive to union activities that it believes have a political end. In such cases, as in the Communist-sponsored railroad strikes in 1958 and 1959 that threatened to undermine the PRI's predominance over labor, the government will react quickly and with force. [REDACTED]

If opposition parties manage to convert discontent with poor economic performance into national political support or attract large numbers of disgruntled PRI members, the governing elite might have to make more substantive changes in the polity to maintain labor's support. Administration moves to meet labor's longstanding demands for a 40-hour workweek and unemployment insurance, or for the appointment of unionists to subsecretarial slots in important economic offices, would be key indicators that labor's influence over policy formation was growing. Attempts to head off political dissidents by "opening" the system would also—by fostering competition for labor support—cause labor's influence to escalate. [REDACTED]

The Mid-1980s. Friction between labor and government, as in other developing countries, seems most likely to develop as economic growth picks up. We expect union members to demand economic bonuses in exchange for previous sacrifices. As long as the system appears to reward labor and the traditional

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Downside Risks. While the chances are much better than even that labor-government relations will remain on an even keel and allow the Mexican system to weather the storm safely, the fluidity of the situation makes for significant downside risks. A political crisis causing the personal links tying the system together to fray and the government to appear rudderless would be most disruptive. In such circumstances—which we consider unlikely because de la Madrid has demonstrated that he is willing to use the enormous power of the presidency and that he understands the Mexican system—Mexico City could bend to the pressures of competing interest groups and thus abandon rational decisionmaking. Labor, as a result, would take an increasingly independent course, guided more by economic self-interest than a commitment to the system. Opposition parties might capture a significant element of the Labor Congress's affiliates, and nonestablishment unions—especially if a charismatic leader emerged—would have a new appeal. Demands for higher wages and work stoppages would skyrocket as labor-business accommodation dissolved. Under these circumstances, the government might seek to use any improvement in its international credit rating to increase borrowing from foreign banks. Such steps would temporarily boost economic activity but invite a new crisis. [REDACTED]

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The outlook for Mexico's safe passage through its economic crisis could also be altered by international developments. For example, if such economic blows—which we do not expect—as a sharp drop in oil prices or a global financial crisis occurred, union reaction to the inevitable widespread plant shutdowns and massive layoffs would be rapid and highly nationalistic. Calls for unilateral debt repudiation and new controls to shield Mexican businesses from foreign competition would be followed by demands for the nationalization of foreign-owned industries, particularly pharmaceuticals and automobiles. To maintain its legitimacy and hold labor's allegiance, the administration would feel compelled to respond favorably. After the euphoria of debt repudiation and nationalizations evaporated, however, labor-government relations would soon begin to deteriorate as competition for shares of a reduced economic pie began anew. [REDACTED]

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A leadership vacuum within the labor movement after Velazquez departs the scene poses the greatest unknown. Continued strong performance by the President, especially if the economy improves, would alleviate most immediate problems. Maintenance of the status quo will be enhanced because union leaders perceive that labor's socioeconomic interests are best served by cooperation with the administration as well as by the lack of political activism among the majority of workers. Over the longer run, however, jockeying for power among CTM leaders or the inability of Velazquez's successors to restrain labor's demands could touch off a complete restructuring of the labor movement and its relations with the government. Severe internal factionalism within the CTM leading to the formation of large rival federations would mark a major crossroads in the 50-year dominance of the ruling party. It would redefine the boundaries of the political system and expand the range of socioeconomic demands and policy issues confronting national decisionmakers. In such circumstances, which we consider possible but at present unlikely, opposition parties would challenge the PRI's preeminence and a separate labor party might emerge. Because labor support is crucial to the PRI's political hegemony, we expect party strategists to try to preserve overall unity within organized labor. Replacing ineffective leaders or bolstering the status of other federations—while potentially disruptive—would be reasonable policy options for de la Madrid [REDACTED]

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Vulnerability of US Firms. In our opinion, US and multinational firms are likely to face increased problems from Mexican labor, especially when the economy picks up. Union leaders probably discount the harmful impact currency depreciation and negative economic growth have had on foreign-owned companies and see them as better prepared than domestic firms to make concessions. [REDACTED]

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[REDACTED] In addition, US firms

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could face pressure from Mexico City to keep wage settlements within the limits established by the National Minimum Wage Commission because the governing elite is concerned that excessive settlements could generate interunion tensions. [REDACTED]

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Implications for the United States

In our view, because labor's influence is generally restricted to domestic economic concerns and because we see good union-government relations continuing, we expect labor problems to have little direct impact on the broad range of bilateral issues concerning Washington and Mexico City. To protect jobs, however, union leaders will continue to resist initiatives to join the General Agreement on Tariffs and Trade (GATT), which hurts short-term prospects for US businessmen to increase exports to Mexico. In addition, labor can also be expected to lobby for export subsidies which US businesses would protest. [REDACTED]

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Deteriorating government-labor relations—although de la Madrid's skillful handling of labor during the past 12 months has significantly lessened the chances for trouble—would create some problems for the United States. Most, however, would be relatively limited so long as Mexico's basic political structure remained intact. For example, employment difficulties would spur a new upsurge of illegal migrants to the United States. Moreover, a rise in the wage bill or a breakdown in labor discipline would hit US firms in Mexico and ultimately foreign banks that had large loans outstanding to private firms. [REDACTED]

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Should the economic crisis and consequent labor problems eventually become unmanageable and lead to political instability—a scenario we find unlikely but nonetheless well within the range of possible outcomes—the implications for the United States assume significant proportions. In such unsettled circumstances, the United States would face an unprecedented set of economic, political, and social problems. [REDACTED]

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Appendix A

Progovernment Unions

Unions affiliated with the ruling party represent an estimated 4-5 million workers—at least 95 percent of organized labor. Most fall into three general categories: government employee unions; confederations or groups of trade unions; and national industrial unions, where, similar to the United States, workers are organized along industry lines. The Confederation of Mexican Workers (CTM) is the largest of over 30 confederations, dwarfing both the Regional Confederation of Mexican Workers (CROM) and the Revolutionary Confederational Workers and Peasants (CROC). The Government Employees' Union (FSTSE), however, has more members than the CTM, according to some academics. National industrial unions—of which the Railroad, Mining, and Petroleum Workers' Unions are the largest—account for approximately 1 percent of progovernment unions.

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The diversity of unions in the PRI's fold—workers covered range from actors and musicians to bureaucrats and teachers—gives some groups more political weight than others. Because the Petroleum Workers' Union can paralyze the economy by shutting down oil production, it is probably the strongest union in the country. The type of pressure it can bring to bear on the government, however, is not duplicated elsewhere in organized labor. Scholars are divided over the power and influence of the CTM and the FSTSE. Some, pointing to the FSTSE's contribution of more successful party and bureaucratic leaders, give it the edge. Stressing the concentration of CTM members in the crucial manufacturing operation and the personal influence of its leader, Fidel Velazquez, others believe—and we agree—that it is still the most important union organization in the country.

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Union Cooperation

Although official unions belong to the Congress of Labor (CT), an umbrella organization aimed at coordinating labor's views on political and economic issues, they are not a monolithic group. The hierarchical structure of Mexican society tends to reinforce

vertical links and dilute development of horizontal relationships. Sharp local, regional, and personal rivalries and intense competition for membership and economic and political rewards divide state and regional federations. According to academics, sympathy strikes or protests are uncommon, and, despite the absence of ideological cleavages, members provide only lukewarm support for political candidates from other unions. Even intraunion cooperation is frequently tenuous because federations are made up of guilds (workers in the same profession), enterprise unions (all workers in a particular plant), and mixed unions (workers in various activities in a single municipality). Moreover, industry-specific demands are difficult to articulate because workers in single industries are distributed among different regional and national confederations.

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Mexico City contributes to organizational diversity to help ensure continued subordination to the state. As potential counterweights to the large and powerful CTM, small confederations, such as the CROM, are kept active. The dynamic Government Employees' Union, although represented in the Labor Congress, is considered part of the PRI's popular sector and thus competes with trade unions for government largess. Because they are more difficult to control, both for the government and confederation leaders, national industrial unions are discouraged. Trade unions are prohibited from joining ranks with rural organizations.

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The fragmented organizational structure of progovernment unions tends to limit their influence on government policy to issues where a general labor consensus exists. This structure also reduces the chances of a serious challenge to the system. Reflecting the narrow range of available options, labor leaders focus most of their attention on timely economic concerns rather than ideological matters.

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Internal Structure and Control Mechanism

The CTM as well as other national confederations—paralleling the corporatist structure of the PRI—are hierarchically ordered and relatively noncompetitive. Leadership is based largely on personal loyalty, and, in most cases, union elections are pro forma. There is little circulation among labor leaders. Corruption is endemic. The rank and file generally shy away from actions not approved by their leaders, who, to encourage passivity, award loyal members with better paying jobs, less dangerous assignments, or better shifts.

[redacted]

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To maintain the long-established pattern of government control, the governing elite has adopted a wide variety of techniques to keep official unions in line. In addition to encouraging structural divisions, a comprehensive federal labor code requires unions and their leaders to register with the Secretariat of Labor. Registrations can be denied and unregistered unions lose the right to represent workers. Similar requirements are also used to void the election of leaders that the government opposes. Because government-dominated arbitration and conciliation boards—operating at the state and federal level—decide on the legality of strikes and resolve most labor-management disputes, Mexico City can use the decisions of labor boards to its advantage. Additionally, government threats to end access to government funds effectively supplement the complex network of legalistic controls because most unions raise few funds from membership dues. [redacted]

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Because politics does not loom large in the eyes of the rank and file, government control over labor is enhanced. Even though union leaders are politically active, most workers do not perceive their participation in national politics as a means to alter government policies. Rather, workers rely on union leaders to watch out for their best interests. [redacted]

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Appendix B

Nonestablishment Unions

Nonestablishment unions constitute—according to US Embassy estimates—approximately 5 percent of unionized labor. They control no essential industries and, reflecting their limited membership, most have local rather than regional or national bases. Nevertheless, the de la Madrid administration closely watches them—especially those with leftist links. Failure to control their wage settlements could encourage an upward shift in salary levels and jeopardize both Fidel Velazquez's ability to hold official labor in line and the President's image as a leader. More importantly, a growing independent union sector would, by offering both political incumbents and the regime's opponents new opportunities for the competitive mobilization of political support, weaken the PRI's political dominance. []

new adherents because the CTM adapted its strategies to offset the UOI's appeal, and Lopez Portillo took a more conservative orientation toward labor than his predecessor. [] 25X1

There is little, moreover, in the UOI's performance in recent years to suggest it is prepared or willing to embark on a broad antigovernment campaign. Concentrated in high-paying jobs—primarily in auto assembly plants around Mexico City—members are reluctant to compromise their gains by associating with opposition leftist parties. Indeed, their leader—Juan Ortega Arenas—frequently takes potshots at the PSUM and did not participate in a leftist-sponsored national work stoppage during October. [] 25X1

Center-Right Unions

The National Federation of Independent Unions (FNSI) is the largest nonestablishment organization; it was founded the same year as the CTM—1936—and is concentrated almost exclusively in the northern industrial city of Monterrey. Because workers in FNSI affiliates enjoy higher pay, more fringe benefits, and better working conditions than workers in other unions, the organization is decidedly nonmilitant and work stoppages rare. It is close to the CTM in terms of its view on labor-management relations, but competition for members often strains relations. The FNSI has no formal ties with any political organization. We believe efforts by employers in Monterrey to maintain fringe benefits and save jobs make labor unrest there unlikely. []

Leftist-Dominated Unions

Leftist parties have made little headway among workers, despite greater public exposure allowed by the 1977 electoral reforms and increased organizational activity. US Embassy sources estimate less than 1 percent of organized labor is leftist dominated. Government hostility and leftist factiousness have restricted gains to Marxist pockets—some large, most small—in many unions. Communists control only two unions outright. [] 25X1

The Communists' most notable unionizing success to date has been among university workers and professors where they have managed to organize some 20 affiliates under an umbrella organization—the Single National Union of University Workers (SUNTU). Nevertheless, Mexico City prohibits SUNTU from representing workers on a nationwide basis, thus avoiding a large organization that could drive a wedge between the PRI and official unions or provoke campus unrest reminiscent of 1968. Individual affiliates of SUNTU, however—including the largest and most prominent at the National Autonomous University of Mexico—are recognized as official bargaining

Nonideological Unions

The Independent Workers Union (UOI), traditionally more aggressive in defending its members' interests and more inclined to strike in support of their demands, is Mexico's most visible independent organization. It is plagued by internal disunity, however; workers in a Volkswagen plant recently left the organization. It has made little progress in attracting

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units. Because of government hostility, infighting among leaders, and competition from progovernment unions, membership in SUNTU appears to have reached a plateau. The government's hardline stance in recent wage negotiations with the affiliate at the National University has also hurt SUNTU's image.

[REDACTED]

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Communists have also successfully organized workers in Mexico's fledgling nuclear industry. Leaders of the Single Union of Workers of the Nuclear Industry (SUTIN), representing bureaucrats and a handful of miners, hold low-level offices in the Unified Socialist Party and are among the most vocal critics of austerity. Because the government decided to close the parastatal company employing most SUTIN members when the union went out on strike this summer, its future is cloudy. [REDACTED]

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Communists dominate dissident groups within several progovernment unions. Those in the traditionally left-leaning National Syndicate of Educational Workers are the largest and most vocal. Particularly in southern Mexico, dissident demands for salary increases and democratization of the union are frequently punctuated by protest marches and work stoppages. While the government has granted dissidents several seats on the union's executive board to head off more trouble, Mexico City has refused to make major concessions or grant substantial wage hikes. Communist pockets also exist in the railroad, mining, and telephone unions, but none matches the size or the level of activity of those in the teachers' union. In addition, a small, loosely organized federation, the Authentic Labor Front (FAT), has close ties with the Unified Socialists, but the Embassy reports that its member affiliates control no factories. [REDACTED]

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Although the Trotskyite Workers Revolutionary Party (PRT) appears to be picking up its recruitment efforts, no other leftist party comes close to matching the Communist Party's inroads among labor. Leftist efforts to channel worker discontent with austerity into political support have foundered on the leftists' internal disunity. Although leftist parties have held several antigovernment demonstrations, the PSUM and the PRT field competing front groups. In addition, the PRT appears to be concentrating its recruitment efforts in areas of Communist strength—such as the National University—rather than trying to chip away at PRI strongholds. [REDACTED]

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